FIRST LIGHT

14 November 2024

RESEARCH

CERA SANITARYWARE | TARGET: Rs 8,500 | +26% | BUY

Q2 demand slow, management guides for stronger H2FY25

EICHER MOTORS | TARGET: Rs 4,885 | +6% | HOLD

Steady show; launch pipeline healthy; key growth driver

HINDWARE HOME INNOVATION | TARGET: Rs 400 | +53% | BUY

Another dismal quarter; muted guidance for H2FY25

ALKEM LABS | TARGET: Rs 7,225 | +30% | BUY

In-line Q2, margins expected to sustain due to cost efficiencies

SUMMARY

CERA SANITARYWARE

- CRS posted strong faucet revenue growth (+23% YoY) in a weak demand environment
- CRS maintains its revenue growth guidance of 16% CAGR over FY24-FY27 in anticipation of demand recovery from H2FY25
- Upgrade to BUY from SELL on positive outlook and reasonable valuations; cut TP by 6% to Rs 8,500

Click here for the full report.

EICHER MOTORS

- Q2 revenue increased ~7% YoY (flat QoQ) to Rs 42.1bn, driven by realisation gain of 8% YoY to Rs 184.5k/motorcycle (small dip QoQ)
- Motorcycle segment's gross margin stayed at 45.7%, dipping marginally QoQ, as the focus shifted to growth
- FY25E/FY26E earnings unchanged, marginal uptick in FY27E earnings. We revise our SOTP-based TP to Rs 4,855 (from Rs 4,724). Retain HOLD

Click here for the full report.

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HINDWARE HOME INNOVATION

- Dull Q2 on weak performance across segments due to cost inflation pressure in a weak demand environment and sales force rationalisation
- Bathware revenue to be flat YoY in H2FY25; EBITDA margin to improve gradually over the next 18-24 months
- Maintain BUY; TP cut by 20% to Rs 400 on earnings downgrade post weak Q2 result

Click here for the full report.

ALKEM LABS

- Q2 reported in-line numbers, where sales/EBITDA were 4% below our estimates. However, PAT was 1% above our estimate
- EBITDA margin was maintained at 22%, despite 6% domestic growth and 22% decline in US sales, driven by cost efficiencies
- We maintain BUY on ALKEM and value the stock at a P/E of 29x on Sep'26 to yield a TP of Rs 7,225 due to higher EBITDA margin trajectory

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BUY
TP: Rs 8,500 | ⮝ 26%

CERA SANITARYWARE | Building Materials | 13 November 2024

Q2 demand slow, management guides for stronger H2FY25

- **CRS posted strong faucet revenue growth (+23% YoY) in a weak demand environment**
- **CRS maintains its revenue growth guidance of 16% CAGR over FY24-FY27 in anticipation of demand recovery from H2FY25**
- **Upgrade to BUY from SELL on positive outlook and reasonable valuations; cut TP by 6% to Rs 8,500**

Utkarsh Nopany
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In-line quarter: CRS's operating performance for Q2FY25 came broadly in line with our estimate, but there was a beat on PAT by 13.1% mainly due to the impact of lower tax rate (10.3% in Q2FY25 vs 25.6% in Q2FY24). Overall, CRS's revenue grew by 6.4% YoY, but EBITDA was down by 5.7% YoY in Q2FY25. Gross margin was down 24bps YoY to 52.6% in Q2FY25, but EBITDA margin fell sharply by 188bps YoY to 14.6% in Q2FY25 mainly due to a few one-off expense (ESOP expense: Rs 12.7mn; share buyback cost: Rs 18mn; showroom closure cost: Rs 115mn). On a five-year CAGR basis, CRS revenue/EBITDA grew at 8.4%/10.9% in Q2FY25.

Key highlights: Sanitaryware revenue de-grew by 3.4% YoY, but faucet revenue grew by 23% YoY in Q2FY25. Net cash position was down from Rs 8.64bn in Jun'24 to Rs 6.59bn in Sep'24 due to the completion of the share buyback programme of Rs 1.3bn (which has resulted in the reduction of the equity base by 0.8%).

Guidance intact: CRS maintained its revenue guidance of Rs 29bn in FY27. The company expects its revenue to grow at double-digit rate in anticipation of recovery in retail demand and margin to return to the normal level of 16-17% in H2FY25 due to the benefit of the price hike (faucet: +6%; sanitaryware: +1%) from Sep'24. The land acquisition for greenfield sanitaryware unit is completed and the decision to commence construction will be taken in Q4FY25. The cost of this project is expected to be Rs 1.3bn (including land acquisition cost of Rs 250mn-300mn).

Upgrade to BUY; cut TP by 6% to Rs 8,500: We upgrade our rating on the stock to BUY from SELL as (a) CRS has performed relatively better compared to its major peers in Q2FY25; (b) management shared a positive outlook as it expects retail demand to recover with margin normalisation from H2FY25; and (c) valuation has now become reasonable post the steep correction in its stock price (trades at 33.6x on 1Y forward PE – in line with its 5Y average multiple). We have cut our TP to Rs 8,500 (Rs 9,000 earlier) due to the downward revision of our EPS estimates (-3.5%/-8.3% for FY26E/FY27E) based on the weak Q2FY25 result. Our target P/E remains unchanged at 40x on Sep'26 estimate (Jun'26 earlier).

Key changes

Target	Rating
▼	▲

Ticker/Price	CRS IN/Rs 6,765
Market cap	US$ 1.0bn
Free float	46%
3M ADV	US$ 1.9mn
52wk high/low	Rs 10,790/Rs 6,591
Promoter/FPI/DII	54%/23%/6%

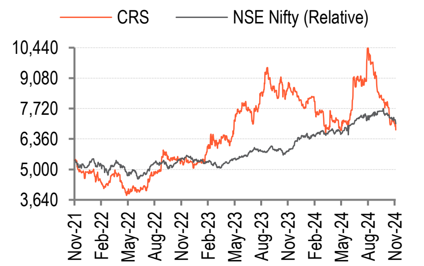
Source: NSE | Price as of 13 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	18,794	19,665	21,745
EBITDA (Rs mn)	3,038	2,992	3,358
Adj. net profit (Rs mn)	2,405	2,492	2,653
Adj. EPS (Rs)	185.0	193.2	205.7
Consensus EPS (Rs)	185.0	195.2	231.9
Adj. ROAE (%)	18.9	17.3	16.4
Adj. P/E (x)	36.6	35.0	32.9
EV/EBITDA (x)	30.7	31.5	28.6
Adj. EPS growth (%)	12.5	4.5	6.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 4,885 | ⮝ 6%

EICHER MOTORS | Automobiles | 14 November 2024

Steady show; launch pipeline healthy; key growth driver

- **Q2 revenue increased ~7% YoY (flat QoQ) to Rs 42.1bn, driven by realisation gain of 8% YoY to Rs 184.5k/motorcycle (small dip QoQ)**
- **Motorcycle segment's gross margin stayed at 45.7%, dipping marginally QoQ, as the focus shifted to growth**
- **FY25E/FY26E earnings unchanged, marginal uptick in FY27E earnings. We revise our SOTP-based TP to Rs 4,855 (from Rs 4,724). Retain HOLD**

Milind Raginwar
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Realisation gains drive revenue growth: EIM's Q2FY25 revenue grew 7% YoY (0.6% QoQ) to Rs 42.1bn, backed by realisation gain of ~8% YoY (-1 % QoQ) to Rs 184.5k per motorcycle, as newly launched products improved the product mix and exports volume gained. Volume growth was flat YoY/QoQ with ~228k units. This helped gross margin stay range bound ~45% (-1% QoQ).

Product mix-driven realisation gain; cost inflates marginally: Gross margin stayed range bound YoY with marginal dip QoQ due to product mix attributable to higher share of 350cc volumes YoY/QoQ. Other expenses increased 4% YoY (fell 4% QoQ) to Rs 5.0bn as launch-related marketing expense continued to rise. Hence, EBITDA was flat YoY at Rs 11bn (-6% QoQ). EBITDA margin fell 160bps each YoY/QoQ to 27.9%. Adj PAT jumped 7% YoY to Rs 10.0bn. (-7% QoQ).

Strong push on launches: In the 2W business, EIM launched the Guerrilla 450 and New Classic 350, and at the EICMA 2024 (Nov'24) Bear 650 and the Classic 650, belonging to the 650cc segment, were launched with the focus on the UK and Europe markets (will be available in India from Jan'25). EIM will launch EVs under the Flying Flea brand and has two models, FFC6 and FFS6, in the pipeline (launch in early 2026). It entered into an MoU for sale of 500 Eicher Pro 6055 LNG trucks.

CV segment gaining traction: The VE Commercial Vehicles (VECV) segment sold ~20.7k units in Q2FY25, growing 6.2% YoY. Heavy-duty truck sales were ~5.1k units (+8.21% YoY), light- and medium-duty trucks ~9.5k units (flat YoY) and buses ~3.9k units (+24% YoY).

Maintain HOLD: We maintain our FY25/FY26 EBITDA estimates due to better high-end variant sales, a healthy product mix and improving exports. We raise FY27 estimates to factor in growing momentum with revenue/EBITDA/PAT CAGR at 12/11%/19% over FY24-FY27E. We continue to value EIM at 27x P/E to factor in better growth prospects in the Royal Enfield (RE) and VECV segments. We arrive at a higher SOTP-based TP of Rs 4,885 (vs. Rs 4,724) that includes Rs 150/sh for VECV. Maintain HOLD with a positive bias.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	EIM IN/Rs 4,589
Market cap	US$ 14.9bn
Free float	51%
3M ADV	US$ 29.3mn
52wk high/low	Rs 5,105/Rs 3,562
Promoter/FPI/DII	49%/30%/9%

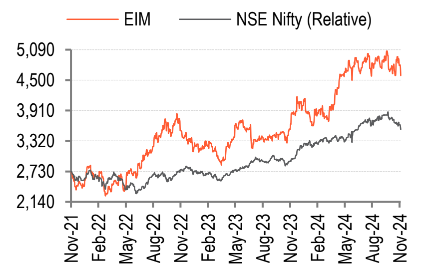
Source: NSE | Price as of 13 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,60,782	1,79,447	1,98,668
EBITDA (Rs mn)	43,802	49,550	55,834
Adj. net profit (Rs mn)	37,494	39,417	45,006
Adj. EPS (Rs)	137.4	144.5	165.0
Consensus EPS (Rs)	137.4	153.0	172.0
Adj. ROAE (%)	23.9	21.3	20.6
Adj. P/E (x)	33.4	31.8	27.8
EV/EBITDA (x)	28.8	25.3	22.0
Adj. EPS growth (%)	43.0	5.1	14.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 400 | ⮝ 53%

HINDWARE HOME INNOVATION

| Building Materials | 14 November 2024

Another dismal quarter; muted guidance for H2FY25

- **Dull Q2 on weak performance across segments due to cost inflation pressure in a weak demand environment and sales force rationalisation**
- **Bathware revenue to be flat YoY in H2FY25; EBITDA margin to improve gradually over the next 18-24 months**
- **Maintain BUY; TP cut by 20% to Rs 400 on earnings downgrade post weak Q2 result**

Utkarsh Nopany
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Dismal quarter: HINDWARE's Q2FY25 result came significantly below our estimates (Revenue: -10.1%; EBITDA: -51.1%) driven by weak performance across segments. The company's revenue/EBITDA de-grew by 9.1%/60.1% YoY in Q2FY25. It posted net loss of Rs 148mn in Q2FY25 vs net profit of Rs 220mn in Q2FY24. Net debt has gone up from Rs 8.1bn in Mar'24 to Rs 8.6bn in Sep'24.

Key highlights: Bathware EBITDA was down by 46.5% YoY in Q2 driven by lower revenue (-9.1% YoY) as well as sharp margin contraction (-664bps YoY to 9.5%) on account of raw-material cost inflation in a weak demand environment and sales team restructuring. Plastic pipe volume grew by a meagre 1.0% YoY in Q2FY25 even on a small base and EBITDA margin was also sharply down (400bps YoY to 6.8%) due to impact of steep fall in PVC resin prices and resultant destocking of channel inventory. Consumer appliances revenue de-grew by 14.3% YoY on a weak base (-14.3% YoY in Q2FY24) and posted sharp operating loss in Q2FY25.

Outlook: HINDWARE expects bathware revenue to be flat on YoY basis in H2FY25 as demand conditions continue to remain weak in Q3FY25 (till date). The company expects its bathware/pipe margin to improve by 200/150bps in FY26 over FY24 due to cost savings from its restructuring exercise and operating leverage benefits. The company has approved a plan to raise equity of Rs 2.5bn through a rights issue at a price of Rs 220 per share to de-lever its balance sheet.

Maintain BUY; TP cut by 20% to Rs 400: HINDWARE has been reporting weak performance for the past three quarters and has provided weak guidance for H2FY25. However, we maintain our BUY rating on the stock due to its strong earnings prospects (EPS to grow at 53% CAGR over FY24-FY27E on a weak base) in anticipation of gradual improvement in its margin profile over the next two years. We have reduced our TP to Rs 400 (Rs 500 earlier) due to the downward revision of our EPS forecasts (-85.9%/-42.4%/-33.0% for FY25E/FY26E/FY27E) based on weak Q2 results. Our target P/E remains unchanged at 30x on Sep'26E (Jun'26 earlier). At CMP, the stock trades at a P/E of 30.4x/18.1x on FY26E/FY27E.

Key changes

Target	Rating
▼	◄►

Ticker/Price	HINDWARE IN/Rs 261
Market cap	US$ 223.6mn
Free float	49%
3M ADV	US$ 0.7mn
52wk high/low	Rs 554/Rs 257
Promoter/FPI/DII	51%/6%/7%

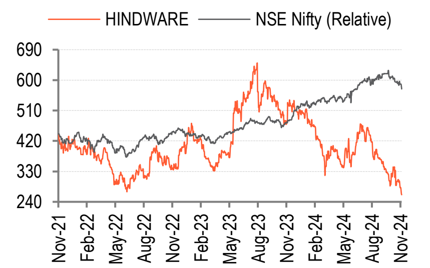
Source: NSE | Price as of 13 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	28,000	27,512	31,029
EBITDA (Rs mn)	2,383	2,012	2,704
Adj. net profit (Rs mn)	290	86	718
Adj. EPS (Rs)	4.0	1.0	8.6
Consensus EPS (Rs)	4.0	9.3	17.7
Adj. ROAE (%)	4.9	1.2	8.0
Adj. P/E (x)	65.1	254.5	30.4
EV/EBITDA (x)	6.3	5.6	4.6
Adj. EPS growth (%)	(49.5)	(74.4)	737.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 7,225 | ⮝ 30%

ALKEM LABS | Pharmaceuticals | 14 November 2024

In-line Q2, margins expected to sustain due to cost efficiencies

- **Q2 reported in-line numbers, where sales/EBITDA were 4% below our estimates. However, PAT was 1% above our estimate**
- **EBITDA margin was maintained at 22%, despite 6% domestic growth and 22% decline in US sales, driven by cost efficiencies**
- **We maintain BUY on ALKEM and value the stock at a P/E of 29x on Sep'26 to yield a TP of Rs 7,225 due to higher EBITDA margin trajectory**

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Slowdown in acute therapies takes a toll on domestic business: ALKEM reported muted revenue growth in Q2 of -0.7% YoY (12% QoQ) to Rs 34.1bn, missing our estimate by 3.7%. This was due to the continued slowdown in the injectables segment of Anti-Infective therapy and no price hike in the NLEM portfolio vs double-digit growth last year. However, cost efficiency measures and higher other income (inclusion of forex gains) resulted in 11% YoY growth in PAT to Rs 6.9bn.

US business to witness recovery in H2: The US business declined 22% YoY to Rs 5.9bn due to supply chain issues in the past resulting in volume degrowth and mid-single digit price erosion pressure and the lack of new product launches. However, with supply chain issues normalising, we expect a recovery in volume growth and, hence, H2 to be better than H1.

High-margin ROW segment growth to sustain: ROW sales grew by 12% YoY to Rs 3.2bn driven by higher traction in Latin America, Australia and Europe. Growth in this market is expected to sustain, driven by price hikes and new product launches. ROW is a high-margin segment and going forward we expect the contribution of the ROW market to increase from the current ~10% of sales and the low-margin US region's contribution to come down.

FY25 margins to increase to 20%: ALKEM's gross margin in Q2 increased to 64.7% driven by cost efficiencies and growth from high-margin businesses like India and ROW, followed by operating cost efficiencies from EBITDA margin increasing 34bps YoY to 22%. Going forward, management expects at least ~100bps increase in margin driven by (1) recovery in domestic growth, (2) continuous growth in ROW market, and (3) cost efficiencies.

We maintain BUY and TP at Rs 7,225: We expect ALKEM's EBITDA margin to rise to 20% in FY25 from 18% in FY24, driven by cost efficiencies and healthy product mix. Hence, we value the stock at a P/E of 29x on Sep'26E, ~29% premium to its five-year mean, which yields a TP of Rs 7,225.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ALKEM IN/Rs 5,571
Market cap	US$ 7.9bn
Free float	41%
3M ADV	US$ 15.5mn
52wk high/low	Rs 6,440/Rs 4,289
Promoter/FPI/DII	57%/6%/16%

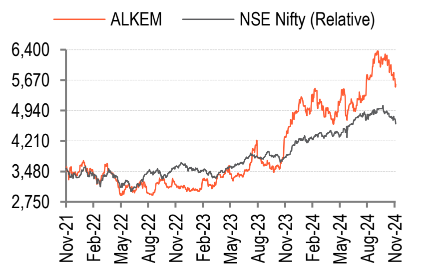
Source: NSE | Price as of 13 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	126,677	141,518	154,873
EBITDA (Rs mn)	22,456	28,942	32,533
Adj. net profit (Rs mn)	19,174	22,181	25,169
Adj. EPS (Rs)	160.4	185.5	210.5
Consensus EPS (Rs)	160.4	181.0	210.0
Adj. ROAE (%)	23.2	23.1	22.4
Adj. P/E (x)	34.7	30.0	26.5
EV/EBITDA (x)	29.3	22.7	20.3
Adj. EPS growth (%)	76.4	15.7	13.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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